

CITY OF POLK CITY, IOWA
INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
AND FINDINGS

JUNE 30, 2008

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City of Polk City, Iowa

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Gary Heuertz	Mayor	January, 2010
Ronald Anderson	Mayor Pro Tem	January, 2012
Dan Lane	Council Member	January, 2010
Robert Mordini	Council Member	January, 2010
David Dvorak	Council Member	January, 2012
Tim Rhoades	Council Member	January, 2012
Gary Mahannah	City Administrator	Indefinite
Colin Adams	Finance Officer	Indefinite
Sharon Nickles	Clerk/Treasurer	Indefinite
Brick Gentry P.C.	City Attorney	Indefinite

POLLARD AND COMPANY P.C.

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IOWA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
City of Polk City

We have audited the accompanying financial statements of the governmental activities, the business type activities, and each major fund of the City of Polk City, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, and each major fund of the City of Polk City as of June 30, 2008, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also included our reports on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the budgetary comparison information are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2007 (none of which is presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedule 1 is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

March 20, 2009

Pollard and Company P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Polk City provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2008 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities decreased by 36.68%, or \$2,031,441 from fiscal 2007 to fiscal 2008. Property and Tax Incremental Financing Tax receipts increased by \$61,956.
- Disbursements decreased 17.06%, or \$723,853, in fiscal 2008 from fiscal 2007. Public safety disbursements increased \$427,420 and capital projects disbursements decreased by \$1,040,234.
- The City's total cash basis net assets increased 7.43%, or \$266,744, from June 30, 2007 to June 30, 2008. Of this amount, the assets of the governmental activities decreased \$512,615; the assets of the business type activities increased by \$779,359.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the non-major governmental funds.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Water and Sewer funds.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, from \$2,594,203 to \$2,081,588. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities

	<u>Year ended June 30,</u>	
	<u>2008</u>	<u>2007</u>
Receipts		
Program receipts:		
Charges for service	351,199	238,201
Operating grants, contributions and restricted interest	355,753	2,769,555
Capital Grants & Contributions	2,422	
General receipts:		
Property tax	672,673	660,567
Tax Increment Financing	139,326	89,476
Local option sales tax	1,837,249	1,618,377
Unrestricted investment earnings	100,727	109,141
Miscellaneous	47,155	52,628
	<u>3,506,504</u>	<u>5,537,945</u>
Total receipts		
	<u>3,506,504</u>	<u>5,537,945</u>
Disbursements:		
Public Safety	1,197,167	769,747
Public Works	311,412	410,598
Health and Social Services	7,500	
Culture and Recreation	352,076	389,241
Community and Economic Development	22,500	10,000
General Government	444,456	439,144
Capital Projects	1,184,008	2,224,242
	<u>3,519,119</u>	<u>4,242,972</u>
Total disbursements		
	<u>3,519,119</u>	<u>4,242,972</u>
Increase (Decrease) in cash basis net assets	(12,615)	1,294,973
Transfers (net)	(500,000)	(250,000)
Inter-fund loans		350,000
Cash basis net assets beginning of year	<u>2,594,203</u>	<u>1,199,230</u>
Cash basis net assets end of year	<u>2,081,588</u>	<u>2,594,203</u>

RECEIPTS BY SOURCE

Unrestricted investment earnings	2.87%
Miscellaneous	1.34%
Operating grants, contributions and restricted interest	10.15%
Tax increment financing	3.97%
Charges for service	10.02%
Property tax	19.18%
Local Option Sales Tax	52.40%
Capital Grants & Contributions	0.07%

DISBURSEMENTS BY FUNCTION

Community and Econ. Development	0.56%
Health & Social Services	0.18%
Culture and Recreation	8.76%
General government	11.06%
Public Works	7.75%
Public Safety	29.79%
Capital Projects	29.46%
Inter Fund Loans & Transfers	12.44%

The City's total receipts for governmental activities decreased by 36.68% or \$2,031, 441. The total cost of all programs and services decreased by \$723,853 or 17.06% which included the continuation of a capital projects program. The significant decrease in receipts was primarily the result of lack of grants received as compared to 2007 due to the finishing of the Parker Blvd Project which was grant assisted.

The cost of all governmental activities this year was \$3,519,119 compared to \$4,242,972 last year. However, as shown in the Statement of Activities and Net Assets, the amount taxpayers ultimately financed for these activities was only \$2,797,130, because some of the cost was paid by those directly benefited from the programs (\$709,374). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, decreased in 2008 from \$3,102,443 to \$709,374. The City paid for the remaining "public benefit" portion of governmental activities with \$811,999 in property taxes (some of which could only be used for certain programs) local option sales tax and with other receipts, such as interest and miscellaneous income.

Changes in Cash Basis Net Assets of Business Type Activities

	<u>Year ended June 30</u>	
	<u>2008</u>	<u>2007</u>
Receipts:		
Program receipts:		
Charges for service:		
Water	\$387,563	\$323,252
Sewer	\$287,845	\$228,425
General receipts:		
Unrestricted interest on investments	\$ 49,731	\$22,199
Intra Fund Loan		
Transfers In	\$500,000	\$250,000
Total receipts	<u>\$1,225,139</u>	<u>\$823,876</u>
Disbursements:		
Water	\$275,550	\$263,933
Sewer	\$170,230	\$174,694
Inter Fund Loans		<u>\$350,000</u>
Total disbursements	<u>\$445,780</u>	<u>\$788,627</u>
Increase in cash balance	\$779,359	\$ 35,249

Cash basis net assets beginning of year	<u>\$995,143</u>	<u>\$959,894</u>
Cash basis net assets end of year	<u>\$1,774,502</u>	<u>\$995,143</u>

Total business type activities receipts for the fiscal year were \$1,225,139 compared to \$823,876 last year. This significant increase was due primarily to amounts transferred via inter-fund loans to provide for future major capital expenditure projects. Total disbursements for the year decreased by 43.47% to a total of \$445,780.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As Polk City completed the year, its governmental funds reported a combined fund balance of \$2,081,588 a decrease of \$512,615. Of that decrease \$500,000 is attributable alone to an increase in transfers to fund future Water/Sewer Capital Projects.

- The General Fund cash balance decreased by \$1,005,680 from the prior year total of \$2,222,953. The decrease is attributable to transfers out and capital project expenditure.
- The Capital Projects Fund was established in year ended June 2004 to isolate from the General Fund items of a capital nature. At the end of the year the balance of this fund was \$737,311. This surplus will be used, with the addition of additional inter fund transfers, to fund the 2008/2009 Capital Expenditure program.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$116,205 to \$218,689. This balance increase was generated by increased rates of water to consumers and cost control of expenses.
-
- The Sewer Fund cash balance increased by \$663,154 to \$1,555,813. This balance increase was generated by (a) cost control and purchase efficiency, and (b) a transfer from the General Fund to provide for future major capital projects. & (c) increased rates to the consumers.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved in March 2008 and resulted in an increase in both disbursements and receipts. The City had sufficient cash balances to absorb these additional costs.

DEBT ADMINISTRATION

At June 30, 2008 the City had no debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Polk City's elected and appointed officials and citizens will consider many factors when setting the fiscal year 2009 budget, tax rates, and fees that will be charged for various City activities. A major consideration will be the planning and timing of necessary and mandated improvements and upgrades to the City's water and sewer treatment plants.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Colin Adams, Finance Director, City of Polk City, 112 3rd Street, Polk City, Iowa.

City of Polk City, Iowa
Statement of Activities and Net Assets – Cash Basis
As of and for the year ended June 30, 2008

Functions/Programs	Program Receipts			
	Disbursements	Charges for Services	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental Activities				
Public safety	\$ 1,197,167	\$ 243,688	\$ 70,790	\$ -
Public works	311,412	-	246,052	-
Health and Social Services	7,500	-	-	-
Culture and recreation	352,076	29,932	15,068	-
Community and economic development	22,500	-	-	-
General government	444,456	77,579	23,843	2,422
Capital projects	1,184,008	-	-	-
Total governmental activities	3,519,119	351,199	355,753	2,422
Business type activities				
Water	275,550	391,755	-	-
Sewer	170,230	333,384	-	-
Total business type activities	445,780	725,139	-	-
Total	\$ 3,964,899	\$ 1,076,338	\$ 355,753	\$ 2,422

General Receipts

Property tax levied for
General purposes
Tax increment financing
Local option sales tax
Unrestricted interest on investments
Miscellaneous

Transfers

Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash basis net assets

Restricted (deficit)
Streets
Urban renewal purposes
Capital Projects
Unrestricted
Total cash basis net assets

There were no reconciling items between the Governmental and Fiduciary Fund Statements of Cash Receipts, Disbursements and Changes in Cash Balances and the above Statement. See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis
Net Assets

Governmental Activities	Business Type Activities	Total
\$ (882,689)	\$ -	\$ (882,689)
(65,360)	-	(65,360)
(7,500)	-	(7,500)
(307,076)	-	(307,076)
(22,500)	-	(22,500)
(340,612)	-	(340,612)
(1,184,008)	-	(1,184,008)
(2,809,745)	-	(2,809,745)
-	116,205	116,205
-	163,154	163,154
-	279,359	279,359
\$ (2,809,745)	\$ 279,359	\$ (2,530,386)

\$ 672,673	\$ -	\$ 672,673
139,326	-	139,326
1,837,249	-	1,837,249
100,727	-	100,727
47,155	-	47,155
(500,000)	500,000	-
2,297,130	500,000	2,797,130
(512,615)	779,359	266,744
2,594,203	995,143	3,589,346
\$ 2,081,588	\$ 1,774,502	\$ 3,856,090

\$ (145,313)	\$ -	\$ (145,313)
272,317	-	272,317
737,311	-	737,311
1,217,273	1,774,502	2,991,775
\$ 2,081,588	\$ 1,774,502	\$ 3,856,090

City of Polk City, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2008

	General	Special Revenue Road Use Tax	Capital Project	Urban Renewal Tax Increment- LMI	Total
Receipts					
Property Taxes	\$ 672,673	\$ -	\$ -	\$ -	\$ 672,673
Tax Increment Financing Collections	-	-	-	139,326	139,326
Other City Tax- Local Option Sales Tax	1,837,249	-	-	-	1,837,249
Licenses and Permits	120,258	-	-	-	120,258
Use of Money and Property	192,391	-	-	2,422	194,813
Intergovernmental	109,702	246,052	-	-	355,754
Charges for Services	105,246	-	-	-	105,246
Miscellaneous	81,185	-	-	-	81,185
Total Receipts	3,118,704	246,052	-	141,748	3,506,504
Disbursements					
Operating					
Public Safety	1,197,167	-	-	-	1,197,167
Public Works	100,685	210,727	-	-	311,412
Health and Social Services	7,500	-	-	-	7,500
Culture and Recreation	352,076	-	-	-	352,076
Community and Economic Development	22,500	-	-	-	22,500
General Government	444,456	-	-	-	444,456
Capital Projects	-	-	1,184,008	-	1,184,008
Total Disbursements	2,124,384	210,727	1,184,008	-	3,519,119
Excess (deficiency) of receipts over (under) disbursements	994,320	35,325	(1,184,008)	141,748	(12,615)
Other financing sources (uses)					
Operating transfers in	-	-	1,500,000	-	1,500,000
Operating transfers out	(2,000,000)	-	-	-	(2,000,000)
Total other financing sources (uses)	(2,000,000)	-	1,500,000	-	(500,000)
Net change in cash balances	(1,005,680)	35,325	315,992	141,748	(512,615)
Cash balance - beginning of year	2,222,953	(180,638)	421,319	130,569	2,594,203
Cash balance - end of year	\$ 1,217,273	\$ (145,313)	\$ 737,311	\$ 272,317	\$ 2,081,588
Cash basis fund balances					
Unreserved					
General fund	\$ 1,217,273	\$ -	\$ -	\$ -	\$ 1,217,273
Special revenue funds	-	(145,313)	-	272,317	127,004
Capital projects fund	-	-	737,311	-	737,311
Total cash basis fund balances	\$ 1,217,273	\$ (145,313)	\$ 737,311	\$ 272,317	\$ 2,081,588

The accompanying notes to financial statements are an integral part of this statement.

City of Polk City, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds
As of and for the year ended June 30, 2008

	Water	Sewer	Total
Operating receipts			
Use of money and property	\$ 4,192	\$ 45,539	\$ 49,731
Charges for service	387,563	287,845	675,408
Total operating receipts	<u>391,755</u>	<u>333,384</u>	<u>725,139</u>
Operating disbursements			
Business type activities	<u>275,550</u>	<u>170,230</u>	<u>445,780</u>
Excess of operating receipts over operating disbursements	<u>116,205</u>	<u>163,154</u>	<u>279,359</u>
Non-operating receipts			
Transfers-in	-	500,000	500,000
Total other financing sources (uses)	<u>-</u>	<u>500,000</u>	<u>500,000</u>
Net change in cash balances	116,205	663,154	779,359
Cash balances - beginning of year	<u>102,484</u>	<u>892,659</u>	<u>995,143</u>
Cash balances - end of year	<u>\$ 218,689</u>	<u>\$ 1,555,813</u>	<u>\$ 1,774,502</u>
Cash basis fund balances - Unreserved	<u>\$ 218,689</u>	<u>\$ 1,555,813</u>	<u>\$ 1,774,502</u>

See notes to financial statements.

City of Polk City, Iowa
Notes to Financial Statements
June 30, 2008

1/ Summary of Significant Accounting Policies

The City of Polk City is a political subdivision of the State of Iowa located in Polk County. It was first incorporated in 1875 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services.

A. Reporting Entity

For financial reporting purposes, the City of Polk City has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

In 1998, the City joined the Des Moines Area Metropolitan Planning Organization to plan and coordinate the transportation activities for the metropolitan area. The Organization's Board consists of a representative from each governing body. The members make contributions toward the budget of the organization. During the year ended June 30, 2008, no contribution was made.

In 1969, the City, in conjunction with seventeen other cities, created the Metro Waste Authority. The Authority board consists of an elected representative of the governing body of each participating governmental jurisdiction. The purpose of this joint public body is to provide for the economic disposal of all solid waste produced or generated by the jurisdictions and private contractors. During the year ended June 30, 2008, the City paid the Metro Waste Authority \$26,622 for the Curb It Program.

The City, in conjunction with eighteen other cities, created the Polk County Emergency Management Commission using a 28E agreement. The commission provides direction for planning, coordinating, training, and support of emergency management services. During the year ended June 30, 2008 the City paid \$718 to the commission.

In addition, the City participates in other jointly governed organizations that provide services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the Joint County/Municipal Disaster Services and Emergency Planning Administration for Polk County, the Emergency Communications Services (911) Board and Central Iowa Regional Drinking Water Commission and League of Cities.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

B. Basis of Presentation (continued)

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

The Capital Projects Fund is used to account for all resources used in the acquisition of capital facilities.

The Road Use Tax Fund is utilized to account for road construction and maintenance.

The Urban Renewal Tax Increment-LMI Fund is utilized to account for the tax receipts to be used for family housing assistance.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Polk City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2008, disbursements exceeded the amounts budgeted in the culture and recreation, and community and economic development functions.

2/ Cash and Pooled Investments

The City's deposits, at June 30, 2008, were entirely covered by Federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$1,719,422 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in instruments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

Credit risk – The City's investment in the Iowa Public Agency Investment Trust is unrated.

3/ Tax Increment Financing

The Urban Renewal Tax Increment – LMI fund contains the division of tax receipts as provided for in Chapter 403.19 of the Code of Iowa for the purpose of providing or aiding public improvements and residential development. That Chapter and Chapter 403.22 provides that the City must include assistance to low and moderate income family housing. In February 2008, the City adopted an affordable housing plan to be implemented from 2008 to 2012.

4/ Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P. O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 3.90% of their annual covered salary and the City is required to contribute 6.05% of annual covered payroll. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2008, 2007, and 2006, were \$53,012, \$48,687, and \$46,357, respectively, which are equal to the required contributions for each year.

5/ Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned compensated absences for vacation hours payable to employees at June 30, 2008, primarily relating to the General Fund, is \$33,000.

The liability has been computed based on rates of pay in effect at June 30, 2008.

6/ Related Party Transactions

The City had business transactions between the City and a City official totaling \$874 during the year ended June 30, 2008.

7/ Risk Management

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk sharing pool whose 563 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 200 percent of the total current member's basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

7/ Risk Management (continued)

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City of Polk City's annual contributions to the Pool for the year ended June 30, 2008 were \$47,310.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$10,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the members' risk-sharing certificate or in the event a series of casualty claims exhausts total member's equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2008, settled claims have not exceeded the risk pool or reinsurance company coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions; however, the refund is reduced by an amount equal to the annual operating contribution, which the withdrawing member would have made for the one-year period following withdrawal.

The City of Polk City also carries commercial insurance purchased from other insurers for coverage associated with workers' compensation and employee dishonesty. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

8/ Commitment

The City entered into a contract for the construction of a maintenance facility and water and sewer extension. At June 30, 2008, the remaining commitment was \$132,685. The City also entered into a contract for the purchase of automatic water meter readers. At June 30, 2008, that remaining commitment was \$221,080.

9/ Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts and disclosure of liabilities, contingent liabilities, and commitments at the date of the financial statements, and the classification of receipts and disbursements during the reporting period. Actual results could differ from the estimates that were used.

10/ Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

	Transfer To		
	Capital Projects	Sewer	Total
Transfer from General	\$ 1,500,000	\$ 500,000	\$ 2,000,000
	<u>\$ 1,500,000</u>	<u>\$ 500,000</u>	<u>\$ 2,000,000</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

11/ Water Rates

In 2006, the City paid Des Moines Water Works \$665,000 for the right to pay lower water rates over forty years, based on a 350,000 gallon per day consumption. The rates will be based on annual cost studies conducted by the Des Moines Water Works. Initially such rates are \$.90 per 1,000 gallons.

12/ Interfund Loan

During the year ended June 30, 2006, the General Fund loaned \$665,000 with no interest to the Water Fund. At June 30, 2008, the loan balance totaled \$315,000.

13/ Deficit Fund Balances

At June 30, 2008, the Road Use Tax Fund had a deficit balance of \$145,313. The deficit will be eliminated by future receipts.

City of Polk City, Iowa
 Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances
 Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds
 Required Supplementary Information
 Year ended June 30, 2008

	Governmental Funds Actual	Enterprise Funds Actual
Receipts		
Property Taxes	\$ 672,673	\$ -
Tax increment financing collections	139,326	-
Other city tax	1,837,249	-
Licenses and permits	120,258	-
Use of money and property	194,813	49,731
Intergovernmental	355,754	-
Special Assessments	-	-
Charges for Service	105,246	675,408
Miscellaneous	81,185	-
	<hr/>	<hr/>
Total Receipts	3,506,504	725,139
	<hr/>	<hr/>
Disbursements		
Public safety	1,197,167	-
Public works	311,412	-
Health and social services	7,500	-
Culture and recreation	352,076	-
Community and economic development	22,500	-
General government	444,456	-
Capital projects	1,184,008	-
Business type activities	-	445,780
	<hr/>	<hr/>
Total Disbursements	3,519,119	445,780
	<hr/>	<hr/>
Excess (deficit) of receipts over disbursements	(12,615)	279,359
	<hr/>	<hr/>
Other financing sources, net	(500,000)	500,000
	<hr/>	<hr/>
Excess (deficit) of receipts and other sources over disbursements	(512,615)	779,359
	<hr/>	<hr/>
Balance - beginning of year	2,594,203	995,143
Balance - end of year	<u>\$ 2,081,588</u>	<u>\$ 1,774,502</u>

See accompanying independent auditors' report.

		Budgeted Amounts		
Net	Original	Final	Final to Net Variance	
\$ 672,673	\$ 653,160	\$ 653,160	\$ 19,513	
139,326	60,000	-	139,326	
1,837,249	769,558	1,807,000	30,249	
120,258	94,300	92,300	27,958	
244,544	91,500	220,500	24,044	
355,754	270,700	450,720	(94,966)	
-	12,000	11,000	(11,000)	
780,654	856,450	907,275	(126,621)	
81,185	45,500	73,865	7,320	
4,231,643	2,853,168	4,215,820	15,823	
1,197,167	1,214,910	1,310,275	113,108	
311,412	456,260	424,620	113,208	
7,500	22,000	18,000	10,500	
352,076	303,985	315,540	(36,536)	
22,500	-	-	(22,500)	
444,456	478,970	469,605	25,149	
1,184,008	750,000	2,321,000	1,136,992	
445,780	540,425	588,330	142,550	
3,964,899	3,766,550	5,447,370	1,482,471	
266,744	(913,382)	(1,231,550)	1,498,294	
-	-	6,610	6,610	
266,744	(913,382)	(1,224,940)	(1,491,684)	
3,589,346	2,878,618	2,878,618	710,728	
\$ 3,856,090	\$ 1,965,236	\$ 1,653,678	\$ 2,209,022	

City of Polk City, Iowa
Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2008

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds, Permanent Funds and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$1,680,820. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2008, disbursements exceeded the amounts budgeted in the Culture and Recreation and Community and Economic Development functions.

City of Polk City, Iowa
Schedule of Receipts by Source and Disbursements by Function
All Government Funds
For the Last Four Years

	2008	2007	2006	2005
Receipts				
Property taxes	\$ 672,673	\$ 660,567	\$ 652,778	\$ 541,190
Tax increment financing collections	139,326	89,476	38,898	1,019
Other city tax	1,837,249	1,618,377	886,977	1,161,315
Licenses and permits	120,258	145,951	336,109	84,345
Use of money and property	194,813	109,141	163,269	142,737
Intergovernmental	355,754	1,095,037	301,478	332,843
Special Assessments	-	1,674,518	-	-
Charges for service	105,246	92,250	97,588	148,896
Miscellaneous	81,185	52,628	78,644	377,689
Total	<u>\$ 3,506,504</u>	<u>\$ 5,537,945</u>	<u>\$ 2,555,741</u>	<u>\$ 2,790,034</u>
Disbursements				
Operating				
Public safety	\$ 1,197,167	\$ 769,747	\$ 641,447	\$ 695,097
Public works	311,412	410,598	542,564	376,903
Health and human services	7,500	-	12,081	6,519
Culture and recreation	352,076	389,241	276,196	296,841
Community and economic development	22,500	10,000	41,466	15,436
General government	444,456	439,144	792,342	342,946
Debt service	-	-	-	375,000
Capital projects	1,184,008	2,224,242	1,364,368	2,306,711
Total	<u>\$ 3,519,119</u>	<u>\$ 4,242,972</u>	<u>\$ 3,670,464</u>	<u>\$ 4,415,453</u>

See accompanying independent auditors' report.

POLLARD AND COMPANY P.C.

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CERTIFIED PUBLIC ACCOUNTANTS

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor and
Members of the City Council

We have audited the accompanying financial statements of the governmental activities, the business type activities, and each major fund of the City of Polk City, Iowa as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon as dated below. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Polk City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we considered to be a significant deficiency and we considered to be a material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned function, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency in internal control described in Part I of the accompanying Schedule of Findings to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiency described above, we believe item 08-I-A is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Polk City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Polk City's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusion on the City's responses, we did not audit the City's responses and, accordingly, we express no opinion on them.

This report, a matter of public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Polk City and other parties to whom the City of Polk City may report. This report is not intended to be and should not be used by any one other than these specified parties.

March 20, 2009

Pollard and Company P.C.

City of Polk City, Iowa
Schedule of Findings
Year Ended June 30, 2008

PART I Findings Related to the Financial Statements

Instances Of Noncompliance - No matters were noted.

Reportable Conditions

08-I-A

Segregation of Duties

One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that generally one person has control over each of the following areas:

- (1) Cash receipts, journalizing and posting.
- (2) Disbursements, check writing, journalizing and posting.

Recommendation

We realize that with a limited number of office employees, segregation of duties is difficult. The City should continue to review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response

We will continue to review the internal control procedures and segregate duties to the extent possible with existing personnel.

Conclusion

Response acknowledged. The City should segregate duties to the extent possible. Administrative personnel should provide additional control through review of financial transactions and reports.

PART II Other Findings Related to Statutory Reporting

08-II-A

Certified Budget

Disbursements during the year ended June 30, 2008 exceeded the amounts budgeted in the Culture and Recreation and Community and Economic Development functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation

The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response

The budget will be amended in the future, if applicable.

Conclusion

Response accepted.

08-II-B Questionable Disbursements

We noted no disbursements for parties, banquets or other entertainment expenses that do not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

08-II-C Travel Expense

No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

08-II-D Business Transactions

Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction	Amount
Rosemary Taylor, Council Member Until January, 2008	Publishing quarterly newsletter	\$874

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Council member do not appear to represent a conflict of interest since the total transactions were less than \$1,500 during the fiscal year.

08-II-E Bond Coverage

Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

08-II-F Council Minutes

No transactions were found that we believe should have been approved in the Council minutes but were not.

Although minutes of the Council proceedings were published, they were not always published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa. Also the published minutes did not contain a summary of all receipts as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation

The City should comply with Chapter 372 of the Code of Iowa and should publish the minutes and a summary of receipts as required.

Response

The City will be sure to publish all future minutes within fifteen days as required by law, and will include a summary of all receipts.

08-II-G

Deposits and Investments

Except as noted below, deposits and investments were in compliance with Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

The City's investment policy limits the investment in money market accounts to 50% of total investments. At June 30, 2008, the City exceeded this percentage.

Recommendation

The City should ensure investments are in compliance with the City's investment policy.

Response

In July, 2008, the city purchased a certificate of deposit with the excess deposits in the money market account, and is now in compliance with its investment policy.

Conclusion

Response accepted.

08-II-H

Financial Condition

The Road Use Tax Fund had deficit balances at June 30, 2008 of \$145,313.

Recommendation

The City should investigate alternatives to eliminate these deficits in order to return this fund to a sound financial position.

Response

Note 13 of the financial statements indicates the City's plans to eliminate the deficit.

Conclusion

Response accepted.

08-II-I

Retention of Electronic Records

As required by Chapter 554D.114(5) of the Code of Iowa, if a bank retains the City's checks in electronic format, the check images received by the City should display both the front and back of the checks.

Recommendation

The City should contact the bank to determine the bank's capabilities to comply with the law.

Response

We will contact the bank and discuss this with them.

Conclusion

Response accepted.

08-II-J

Economic Development

The city paid \$22,500 to the Polk City Economic Development Corporation which may not be an appropriate expenditure of public funds.

In accordance with Chapter 15A of the Code of Iowa and an Attorney General's opinion dated August 28, 1986, government financing of economic development may, in appropriate circumstances, serve a public purpose. The opinion advises the governing body to evaluate the public benefits to be obtained and discusses specific criteria to be considered in documenting the public purpose.

Recommendation

The Council should evaluate and document the public purpose served by the expenditure and should require the Development Corporation to provide the requested documentation of how the funds were used to accomplish economic development activities before authorizing further payments.

Response

We will follow up on the requested information and adopt the recommendation in the future.

Conclusion

Response accepted